Auditor-General of South Africa

Mkhambathini Municipality- Audit report 2016-17

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Mkhambathini Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Mkhambathini Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, and cash flow statement and statement of comparison of budget with actual information for the year then ended, as well as the notes to the financial statements, comprising a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mkhambathini Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.

4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics* for *professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of these matters.

Material impairments

7. As disclosed in note 22 to the financial statements, material impairments to the amount of R2,17 million were incurred as a result of irrecoverable trade debtors.

Other matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

9. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

11. In preparing the financial statements, the accounting officer is responsible for assessing the Mkhambathini Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

12. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated

the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for basic services delivery and infrastructure development presented in the annual performance report of the municipality for the year ended 30 June 2017.

17. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2 – Basic services delivery and infrastructure development

Number of capital project maintained: Indicator not consistent

19. The indicator was reported as number of capital project maintenance budget reports signed off while the indicator was approved as number of capital projects maintained in the integrated development plan. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

No of houses to be electrified: Target not consistent and indicator not reliable

30. The target planned was reported as 380 houses electrified on the annual performance report while the target was approved as 50 houses in the service delivery and budget implementation plan. This is not in line with section 41(c) of the MSA. In addition, the target was changed to 380 without the necessary approval, as required section 25(2) of the MSA.

    Furthermore, I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of 341 houses due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments necessary to the reported achievement of 341 houses electrified.

Various indicators

31. The evidence for the achievement of the flowing planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI). This was due to a lack of technical indicator descriptions and/or formal standard operating procedures or documented system descriptions. I was unable to test whether the indicator was well-defined by alternative means.

- Date of completion of Mthayi access road
- Date of completion of Mantungweni access roads

Reported achievement did not agree with the evidence provided

No of meetings held with stakeholders for the provision of electricity

32. The reported achievement for the number of meetings held with stakeholders for the provision of electricity was misstated as the evidence provided indicated 1 meeting and not 12 meetings as reported.

Date of Completion of Bebhuzi sports field

33. The reported achievement for the date of completion of Bebhuzi sports field was misstated as the evidence provided indicated 12 May 2017 and not 30 April 2017 as reported.

Reported achievement not supported by sufficient appropriate audit evidence

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of targets. This was due to evidence not provided to support the reported achievement. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement. Details of these indicators are as follows:

- Date indigent register is completed
- Number of kilometres tarred road maintained
- Date maintenance to be completed

Other matters

35. I draw attention to the matters below.

Achievement of planned targets

36. The annual performance report on pages x to x; x to x includes information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 19 to 34 of this report.

Adjustment of material misstatements

37. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

38. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

39. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

40. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors on property, plant and equipment, expenditure and capital commitments in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

42. Effective steps were not taken to prevent irregular expenditure stated at R5,17 million disclosed in note 36 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by three quotations not being obtained.

43. Effective steps were not taken to prevent fruitless and wasteful expenditure stated at R4,12 million, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest paid to South African Revenue Services arising from the voluntary disclosure relief programme.

Consequence management

44. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure as required by section 32(2)(b) of the MFMA.

Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes Mayors foreword, accounting officer's report and audit committee's report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported in the auditor's report.

46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

48. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon

50. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on compliance with legislation included in this report.

Leadership

51. Leadership did not exercise adequate oversight responsibility regarding financial and performance reporting due to misstatement or errors noted on these report and furthermore compliance with applicable legislation was not addressed timely.

Financial and performance management

52. Management did not adequately review the supporting schedules for the financial statements and performance reports as evident by correction made during the audit. Furthermore, compliance could have been prevented had compliance been monitored.

Auditor-General

Pietermaritzburg

30 November 2017

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mkhambathini Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.